

Message Text

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TAGS: ABUD, ECON, EFIN, IR

SUBJ: REVIEW OF OVERSEAS WAGE AND PRICE INCREASES

REF: A. STATE 173452 B. TEHRAN 3018 C. TEHRAN A-78

1. SUMMARY: OST OF LIVING IN IRAN PROBABLY IS RISING AT ANNUAL RATE OF ABOUT 20-25 PERCENT. BECAUSE OF GOI SUBSIDIES ON SOME BASIC COMMODITIES, EFFECTS OF INFLATION ON URBAN POOR ALLEVIATED TO SOME EXTENT. RISE IN LIVING COSTS FOR MIDDLE AND UPPER CLASS IRANIAN AND FOR MOST FOREIGNERS IN COUNTRY ARE HIGHER THAN AVERAGE. OFFICIAL PRICE INDEX FIGURES PUBLISHED BY CENTRAL BANK SHOW RATE OF INFLATION IS ACCELERATING BUT CURRENTLY LESS THAN 20 PERCENT. HOWEVER, THESE FIGURES ARE WIDELY BELIEVED TO UNDERSTATE REAL RISE IN LIVING COSTS. END SUMMARY.

2. GENERAL ECONOMIC OVERVIEW. SEE EMBASSY'S MOST RECENT REPORT ON INFLATION (REF B) AND LATEST ECONOMIC TRENDS REPORT (REF C). ANNUAL "REAL" RATE OF INFLATION STILL BELIEVED BY MOST OBSERVERS OF IRANIAN ECONOMY TO BE IN 20-25 PERCENT RANGE. IRAN THROUGHOUT MOST OF PAST TWO DECADES HAD ONLY MINOR INFLATIONARY PROBLEM WITH ANNUAL RATE OF PRICE INCREASES USUALLY LESS THAN FIVE PERCENT. DURING 1971 AND 1972 INFLATIONARY PRESSURES BEGAN TO MOUNT, HOWEVER, AND REAL RATE OF PRICE INCREASES PROBABLY REACHED AT LEAST

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EIGHT PERCENT DURING LATTER YEAR. DURING IRANIAN YEAR 1352 (ENDING

MARCH 20, 1974 OR ROUGHLY CORRESPONDING TO 1973) OFFICIAL CONSUMER PRICE INDEX SHOWED 11 PERCENT RISE AND WHOLESALE PRICE INDEX 13 PERCENT. REAL RATE OF INCREASE IN COST OF LIVING DURING YEAR PROBABLY AT LEAST 15 PERCENT, AND IN RECENT MONTHS INFLATIONARY PRESSURES HAVE WORSENER. HOWEVER, INDUSTRIAL WORKERS' WAGES WENT UP BY ABOUT 25 PERCENT DURING 1973 AND INCREASE RATE IN EXECUTIVE LEVEL SARARIES ESTIMATED AT ABOUT 35 PERCENT.

3. BASED ON OFFICIAL INDECES, COSTS OF FOOD AND CLOTHING HAVE RISEN SLIGHTLY HIGHER THAN AVERAGE, AND HOUSING COSTS HAVE RISEN ABOUT 40 PERCENT HIGHER THAN AVERAGE FOR ALL ITEMS. ON OTHER HAND, TRANSPORTATION, N MEDICAL CARE AND OTHER SERVICES HAVE RISEN LESS THAN AVERAGE. OFFICIAL SUBSIDIES AND PRICE CONTROLS ON SOME BASIC ITEMS AND SERVICES ARE GEARED AT CUSHIONING IMPACT OF INCREASES IN LIVING COSTS ON URBAN LOWER CLASS. EMBASSY ESTIMATES COSTS OF HOUSING FOR MIDDLE AND UPPER CLASS ARE RISING AT LEAST AT 30-35 PERCENT ANNUAL RATE. PRICES OF NON-SUBSIDIZED FOODSTUFFS, MUCH OF WHICH IMPORTED, PROBABLY ARE GOING UP SOMEWHERE IN 25-30 PERCENT RANGE. GOI CONTROLLED PRICES FOR HOUSELHOLD UTILITIES (ELECTRICITY, TELEPHONE, WATER, GASOLINE/KEROSENE, PUBLIC TRANS- PORTATION, ETC HOWEVER, HAVE NOT BEEN PERMITTED TO RISE INRECENT YEARS AND HAVE TENDED TO KEEP PRICE INCREASED IN SERVICES PORTION OF INDEX BELOW AVERAGE. NEVERTHELESS, THOUGH NOT LISTED SEPARATELY IN OFFICIAL INDEX, HOTEL PRICES AND COSTS OF RESTAURANT MEALS ARE RISING AT LEAST AS FAST AS OVERALL ESTIMATED 20-25 PERCENT ANNUAL COST OF LIVING INCREASE RATE. REQUESTS FOR INCREASES IN PER DIEM RATES FOR IRAN CAN BE EXPECTED AT SIMILAR RATE. WITH ALREADY ACUTE HOUSING SHORTAGE AGGRAVATED BY CONTINUING INFLUX OF FOREIGNERS, QUARTERS ALLOWANCES SHOULD RISE BY ABOUT ONE-THIRD ANNUALLY.

4. GOI IS ALARMED OVER ACCELERATING INFLATION AND IS TAKING MEASURES TO CONTROL RATE OF PRICE INCREASES. HOWEVER, APPEARS UN- LIKELY IT WILL HAVE NOTICEABLE SUCCESS IN BRINGING DOWN RISE IN LIVING COSTS FOR MIDDLE AND UPPER INCOME BRACKET IRANIANS OR FOR FOREIGNERS LIVING IN IRAN. MOSTLY BECAUSE OF RECENT SHARP INCREASES IN PRICE OF OIL, REAL RATE OF GNP GROWTH IN IRAN DURING YEAR ENDED MARCH 20, 1974, WAS 32.8 PERCENT. RATE OF INCREASE FOR CURRENT IRANIAN YEAR PREDICTED OFFICIALLY AT 51.1 PERCENT. AFTER THIS YEAR, RATE OF REAL GNP GROWTH SHOULD DROP BELOW 20 PERCENT, BUT RATE OF INVESTMENT WILL REMAIN HIGH, AND CONTINUATION OF LIMITED OFFICIAL USE

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DOUBLE DIGIT INFLATION SEEMS ALMOST INEVITABLE.

5. ASSUMING PRESENT TRENDS CONTINUE, LIVING COSTS FOR FOREIGNERS IN IRAN OVER NEXT 18 MONTHS LIKELY WILL GO UP AT ANNUAL RATE OF ABOUT 25 PERCENT. OFFICIAL USG EMPLOYEEES, OF COURSE, WILL BE PROTECTED TO SOME EXTENT FROM INCREASES IN FOOD PRICES BY ARMISH MAAG COMMIS- SARY.

6. INDICES: CENTRAL BANK OF IRAN PUBLISHES OFFICIAL WAGE AND PRICE INDICES BASED ON DATA SUPPLIED BY STATISTICAL CENTER OF IRAN. DURING IRANIAN MONTH ENDING JULY 22, 1974, MOST RECENT FOR WHICH DATA AVAILABLE, CONSUMER PRICES IN URBAN AREAS OF IRAN WERE 18.2 PERCENT ABOVE SAME MONTH LAST YEAR. AVERAGE ANNUAL RATE OF INCREASE FOR FIRST FOUR MONTHS OF IRANIAN YEAR (MARCH 21-JULY 22) WAS 16.4 PERCENT. HOWEVER, OFFICIAL INDEX IS WIDELY BELIEVED TO UNDERSTATE RATE OF INFLATION. EMBASSY ESTIMATE OF 20-25 PERCENT AVERAGE INCREASE IN COST OF LIVING IS BASED ON CONVERSATIONS WITH CENTRAL BANK OFFICIALS AND OTHER OBSERVERS OF IRANIAN ECONOMY.
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